

[Don't They Have Economists at the CBI?](#) [1]

Written by [Tim Worstall](#) [2] | Saturday 10 May 2008



I'm used to the idea that we'll get economic lunacy from the World Wildlife Fund and the like but when the head of that plus the DG of the CBI and other luminaries get together to argue in favour of the hypothecation of green house taxes I start to despair. The CBI is at least supposed to have economists around the place somewhere. The background is that they've noted that the new cap and trade system for CO2 emissions will raise money, [therefore](#) [3]:

But this is still a substantial, additional transfer of funds from business and consumers to government (perhaps £300m-£400m per year from 2008-2012, and several times that in subsequent years). This represents a tremendous opportunity for the government to demonstrate its real commitment by announcing an equivalent-scale investment in securing the transition to a low-carbon economy and in adaptation.

While we accept there may be some technical difficulties in ringfencing the revenue, it should be perfectly possible to announce a similar investment in low-carbon technologies and adaptation equivalent to the revenue raised by auctioning.

There's only four things wrong with this, although they do seem to be four rather important things.

1) The revenues from cap and trade auctions are not supposed to be an increase in taxation. Rather, they are a transfer of such: overall they are supposed to be revenue neutral. One idea might be to do as is done with the landfill tax: the revenues are compensated by a reduction in employers' national insurance charges. But other taxation should be cut in lock step with the new revenue raised: thus there is no pot of money to spend in such a manner.

2) Hypothecation of taxes is a bad idea in principle. There is no link between how much can be raised from the auction of said permits and the amount that we want to spend on low-carbon technologies, just as there is no link between the amount that smokers cost the NHS in direct health care costs and what can be and is raised by the taxation of tobacco. To ring fence such revenues is nonsense: tax where you can and spend where you must rather. **[Click 'Read More' to continue]**

3) The aim of cap and trade isn't in fact to provide revenues to do anything: rather, it's to correct an imperfection in market pricing. Currently we do not include the external costs, cap and trade introduces them. According to theory, that's actually all that we need to do. Once market prices include those costs, we will automatically get the appropriate investment into alternatives, or into mitigation as opposed to adaptation. No further subsidy is required.

4) The weasel part comes in "additional transfer of funds from business and consumer" when it's quite apparent that business (as all will face the same rise in their costs for a certain technology) will be able to pass on all the costs to consumers. But that spending of money on technology and adaptation will be captured by business, not consumers. Consumers pay and business benefits.

Numbers one through three are ones that the CBI should know very well: while Adam Smith warned against businessmen gathering together for the risk of their engaging in a conspiracy against the public, surely the paltry sums on offer from reason four are not sufficient to turn their heads?

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